

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

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SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01

PRS-01 /092 W

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R 090955Z MAY 75

FM AMCONSUL PORT MORESBY

TO SECSTATE WASHDC 503

INFO AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY KUALA LUMPUR

C O N F I D E N T I A L PORT MORESBY 0426

E.O. 11652: GDS

TAGS: ENRG, PP

SUBJECT: GPNG PASSES STRINGENT OIL PROSPECTING BILL

1. SUMMARY: SIR PAUL LAPUN, MINES MINISTER, INTRODUCED LEGISLATION INTO THE HOUSE OF ASSEMBLY DECEMBER 11, 1974, WHICH IS STRIKINGLY SIMILIAR TO AUSTRALIAN LEGISLATION, ACCORDING TO OIL INDUSTRY SOURCES HERE. THE PETROLEUM (SUBMERGED LANDS) BILL, PASSED TWO WEEKS AGO, SETS UP THE ADMINISTRATIVE FRAMEWORK FOR OIL AND GAS LICENCES AND FOR REGULATION OF OIL COMPANIES. KEY PROVISION OF THE BILL ALLOWS FOR OIL AND GAS EXPLORATION ONLY. COMPANIES WILL NOT BE PERMITTED TO BEGIN COMMERCIAL PRODUCTION UNTIL A SUPPLEMENTARY AGREEMENT IS REACHED ONCE OIL OR GAS IS DISCOVERED. END SUMMARY.

2. IN HIS SPEECH INTRODUCING THE LEGISLATION, SIR PAUL
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LAPUN STATED THE BILL "MARKS ANOTHER IMPORTANT STEP IN

THE CONTROL OVER DEVELOPMENT OF OUR NATURAL RESOURCES." HE STRESSED THAT ONE MEDIUM SIZE OIL FIELD PRODUCING 20,000 BPD WOULD GENERATE AS MUCH REVENUE AS DID THE BOUGAINVILLE COPPER CO. THE BILL IS DESIGNED TO "SET UP A SYSTEM THAT ENSURES THE MAXIMUM POSSIBLE EXPLORATION FOR OIL AND GAS, SO WE KNOW WHAT OUR RESOURCES ARE, AND THEN WE MUST SET UP A TAX AND REVENUE SYSTEM THAT KEEPS THE BENEFITS OF THESE REVENUES IN THIS COUNTRY" CONTINUED SIR PAUL.

3. THE BILL HAS A NUMBER OF IMPORTANT PARTS: 1) IT DEFINES THE OFFSHORE AREA IN WHICH PNG WILL CONTROL OIL AND GAS EXPLORATION (THE CONTINENTAL SHELF WITH PROVISIONS FOR INCLUDING ADDITIONAL AREAS LATER; 2) IT SETS UP A SYSTEM OF LICENCES FOR EXPLORATION AND DEVELOPMENT (INITIALLY SIX YEARS WITH RENEWAL FOR FIVE MORE; 3) IT ALLOWS FOR GPNG CONTROL OF OPERATIONS FOR POLLUTION PURPOSES; 4) IT ALLOWS THE GOVERNMENT TO NEGOTIATE FINANCIAL TERMS WITH EACH OIL COMPANY WITHOUT GOING TO HOUSE OF ASSEMBLY FOR APPROVAL; AND 5) IT PROVIDES PROTECTIVE RIGHTS FOR COMPANIES CURRENTLY HOLDING PROPECTING LICENCES UNDER AUSTRALIAN LAW. BREACHES OF THE LAW WILL COST FIRMS A\$5,000 PER DAY.

4. FOR OILMEN THE KEY SECTION PROVIDES THAT ONCE OIL OR GAS ARE DISCOVERED IN COMMERCIAL QUANTITIES THE COMPANY WILL THEN SIT DOWN WITH GOVERNMENT OFFICIALS TO WORK OUT SATISFACTORY FINANCIAL, INCLUDING TAX, AGREEMENTS. IF THIS CANNOT BE DONE, THEN THE COMPANY WILL NOT BE GRANTED A TWENTY YEAR PRODUCTION LICENCE. SIR PAUL, IN HIS SPEECH, SAID: "MY DEPARTMENT IS NOW WORKING ON A MODEL AGREEMENT FOR COMMERCIAL PRODUCTION OF OIL, AND I EXPECT THAT OUR TERMS WILL BE AS TOUGH AS THOSE OF MOST OTHER COUNTRIES IN THE WORLD. WE WILL ALLOW OIL COMPANIES A FAIR RETURN ON THEIR INVESTMENT, BUT THE VERY HIGH PROFITS PRODUCED BY OIL MUST REMAIN IN PNG FOR USE IN OUR OWN DEVELOPMENT PROGRAMMES."

5. THE LEGISLATION COMMENCED AS OF APRIL 3, 1975, AND WAS GAZETTED APRIL 10 MAKING IT EFFECTIVE IMMEDIATELY. CONFIDENTIAL

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6. COMMENT: THE OIL INDUSTRY WILL BE WATCHING CLOSELY TO SEE WHAT KIND OF MODEL AGREEMENT FOR COMMERCIAL PRODUCTION SIR PAUL PRESENTS. THERE IS CONSIDERABLE MIS-GIVING THAT THE GPNG WILL ATTEMPT TO KEEP PROFITS WITHIN THE "GOLDEN" 15 PERCENT EXACTED IN ITS NEGOTIATIONS WITH BOUGAINVILLE COPPER CO. ONE SOURCE SAID HIS COMPANY EXPECTED PROFITS OF FROM 20 TO 25 PERCENT MINIMUM AND

WOULD NOT BE SATISFIED WITH LESS. HE INDICATED INTRODUCTION OF THIS BILL GREATLY INCREASED THE RISK FACTOR UNDER WHICH EXPLORATION WAS CONDUCTED IN PNG. GIVEN THE HIGH PROFITABILITY OF OIL, THERE IS NO REASON TO BELIEVE THAT THIS BILL WILL SIGNIFICENTLY REDUCE EXPLORATION IN PNG. HOWEVER, IT IS A CERTAINTY THAT IF OIL TR GAS ARE FOUND IN COMMERCIAL QUANTITIES AND THEN THE GPNG PRESENTS ESSENTIALLY CONFISCATORY DEMANDS, FUTURE EXPLORATION WILL SUFFER A SEVERE SETBACK. END COMMENT.
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